1 Actuarial Analysis: Impact of the ACA on Small Group and Non-Group Market Premiums in Rhode Island

December 12, 2011 Exchange Work Group RI-CIE

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Individual Market

Policy Discussion and Next Steps

3 Where We Are

- Wakely has performed a preliminary assessment of impact of the ACA reforms on RI's individual & small group insurance premiums
- ❖The draft report includes the following components:
 - Analysis of the RI individual market impact
 - Analysis of the RI small group market impact
 - Additional policy considerations
- This preliminary analysis suggests:
 - Limited impact on average RI individual, small group insurance premiums
 - A range of rate effects in the individual market, with some populations likely to experience significant increases and others likely to experience significant decreases
 - Introduction of the exchange importance of policies to ensure consistency between rates inside and outside the exchange

4 For Today

- Share Wakely's preliminary findings on impacts of ACA reforms on individual, small group market premiums
- ❖Get input on potential strategies to address the following:
 - Minimize any specific negative rate effects in the individual market
 - Maintain consistency inside and outside the exchange
- ❖Key Consideration: Strategies requiring <u>legislative</u> action
 - Any rating changes requiring legislative action must be

introduced this session in order to effectively impact rates offered in 2014

 Administration is seeking input on potential legislative strategies – exchange specific strategies have longer time horizon

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6 Small Group Market under ACA

Rhode Island's current existing small group rules and regulations are similar to the ACA provision reforms and will not result in significant changes in the market.

7 Small Group Market under ACA

The best estimate is that average small group market premiums will increase slightly, primarily driven by the health insurance provider fee requirement (the annual federal assessment made on health insurers).

8 Policy Considerations for Maintaining Consistency Inside and Outside the Exchange

- ❖Plans Offered Inside and Outside the Exchange States should consider the following requirements in order to help mitigate adverse selection against the Exchange
 - Within the Exchange, participating QHPs must offer at least the highest three actuarial value tiers (Gold, Silver, and Platinum)
 - For carriers offering products outside the Exchange, require them to also offer products inside the Exchange
 - For carriers offering products inside and outside the Exchange, require that the plan designs offered inside and outside are identical
 - Catastrophic Plan Restriction

Rhode Island may want to consider requiring carriers to sell identical catastrophic plans inside the Exchange if they sell them outside the Exchange

- Rhode Island has a number of options to protect against adverse selection effects that could shift risk into or out of the Exchange
- 9 Policy Considerations for Maintaining Consistency Inside and Outside the Exchange
 - Assigning Actuarial Value to Plans Outside the Exchange Rhode Island may want to consider mandating that products offered outside the Exchange be labeled with their specific tier level by the carrier. This would simplify monitoring ACA requirements, make product offerings more understandable for consumers, and may also simplify risk adjustment administration
 - Minimizing Amount of Stop Loss Coverage Allowed for Self-funded Employer Groups

The State could impose a requirement that self-funded groups must have attachment points of at least a set dollar amount, or self-funded groups must retain a significant portion of the risk based on a standard population (i.e. 85%), in order to protect the small-group risk pool inside and outside the Exchange.

Rhode Island has a number of options to protect against adverse selection effects that could shift risk into or out of the Exchange

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11 Changes to Individual Market Premiums under ACA

Many of the aspects of ACA reforms that are expected to result in

Many of the aspects of ACA reforms that are expected to result in significant changes in other states are not impactful for Rhode Island

12 Distribution of Average Estimated Premium Impact

However, due to the combination of RI's two current risk pools, there is a wide range of estimated premium impacts

13 Individual Market under ACA

The best estimate of the average change in premium required is 5%.

❖After taking into account premium tax credits, the best estimate premium change would be a decrease of 19% for those currently covered by individual insurance.

14 Premium Subsidies

The average premium subsidy in the individual market is estimated to be 24%. However, there is no subsidy for those above 400% FPL, leaving that population vulnerable to sharp premium increases.

15 Policy Considerations to Minimize Rate Effects

- - We estimate that the rate impact of merging the small group and individual markets would be minimal in 2017 and after, when reinsurance is no longer incorporated
 - If markets were merged, 2017 rates in the individual market would likely increase approximately 1%, and rates in the small group market would likely decrease by approximately 1%.
 - These estimates are based on the assumption that small group and individual rates could not differ in a merged market.
 - ❖Moving Business Groups of One to the Individual Market
 - We estimate that the 2017 individual market premiums would increase by about 2%,
 - ■BG1s would experience almost no change in their premiums, and
 - Premiums for the remaining small groups would be expected to decrease by about 2%.
- There is a concern of negative rate effects particularly for young healthy individuals who are not eligible for subsidies. Wakely analyzed the following potential policy considerations to address this concern:

16 Policy Considerations to Minimize Rate Effects

■ Use of Tobacco as a Rating Factor
The ACA allows up to a 1:1.5 rating variation for tobacco users,

meaning that carriers can charge tobacco users premiums that are up to 50% higher than premiums for non-tobacco users.

- ❖Tightening Rate Compression Beyond 3:1 Rhode Island could limit allowable variation to less than 3:1, particularly since the current guaranteed issue individual pool has a more compressed age variation than 3:1. However, this would raise rates for the younger, healthier population rather than lowering them.
- Additional policies to consider are as follows. These policies have not yet been analyzed as to their impact on the market.
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18 Next Steps

- Finalize set of recommended policy options to address consistency of rates inside and outside exchange
- ❖Develop specific transition plan for the individual market
 - Further explore policy options to address rate effects.
 - More detailed assessment of impact of different policy options
- ❖Further analysis on changes to small group, individual markets
 - Update impact of mandated benefits once they are defined
 - Review impact of including groups of 51-100 employees in the small group market earlier than the required federal deadline
- Develop a work plan for implementing risk adjustment, reinsurance for the small group market
- Draft legislation for market reform, refine prior to introduction and during legislative session

19 For Discussion

Given the policy objectives outlined below, what strategies should we

consider?